

Legislative Fiscal Bureau

Fiscal Note

HF 674 - Active Duty Pay Income Tax Exclusion (LSB 3366 HV)

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Fiscal Note Version — New

Description

House File 674 provides income tax exemptions and deductions for qualified military personnel and military organizations. Specifically, the Bill:

1. Allows penalty-free withdrawals from the Iowa Educational Savings Plan Trust if the withdrawn funds are used to pay educational expenses at a U.S. military academy (Section 1 & 2).
2. Exempts from military active duty pay from State income tax if received after January 1, 2003, and if the pay was a result of participation in Operation Iraqi Freedom, Operation Noble Eagle, or Operation Enduring Freedom (Section 3).
3. Allows a deduction of up to \$1,500 for qualified travel expenses of a member of the National Guard or Reserve. The deduction is available to standard and itemize filers (Section 3 & 5).
4. Exempts from military student loan repayments from State income tax if received by military personnel while on active duty (Section 3).
5. Exempts from military death payments from State income tax if received for deaths occurring after September 10, 2001 (Section 4).
6. Expands the instances where military personnel may delay filing income tax returns without incurring a penalty (Section 6).
7. Exempts from State income tax certain military organizations that do not qualify for federal income tax exemption due to the inclusion of ancestors or lineal descendants as members of the organization (Section 7).

Assumptions

1. Items 1, 4, 5, and 6 listed above will have minimal fiscal impact.
2. Items 2 & 3 (active duty pay and travel deductions) will reduce total FY 2004 Iowa taxable income by \$40.0 million and the average effective tax rate will be 4.0%.
3. Item 7 (military organizations) will reduce Iowa taxable income by \$1.2 million per year and the average tax rate will be 5.0%.

Fiscal Impact

House File 674 will reduce FY 2004 General Fund revenues by \$1.7 million.

The military travel expense deduction and military organization income tax exemption are ongoing and will reduce General Fund revenues by \$160,000 in FY 2005 and succeeding fiscal years.

Sources

Department of Revenue and Finance
Legislative Fiscal Bureau analysis

/s/ Dennis C Prouty

April 22, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
